

CHAIRMAN'S message



In view of the brilliant financial results achieved in the past year and the excellent prospects for this year, this message should be quite cheerful. But on February 14, tragedy struck, and Rafic Hariri is no longer among us.

This is a great and irreparable loss. Mr. Hariri is a martyr for Lebanon and the Arab countries. It is to him that we owe the vision and inspiration for the rebirth of Beirut city center. He was the godfather of the project and gave us the impetus, perseverance, dedication and means to carry it through. It is my deep hope that we can all abide by his national ideals in order to pursue the reconstruction efforts, and steer our beloved Lebanon towards progress and prosperity.

Solidere, as everyone is aware, is now well established and deemed to be a major contributor to the economic and commercial activity in the country. It is a necessity for any and all governments, and I expect we would have the support of any new administration. It is worth underlining, too, that Solidere enjoys an important network of investors, including some key business figures in the Arab world. These investors have a stake in the future of our Company, and we all have a mutual goal of making sure that it develops smoothly and successfully.

The city center has attracted over the years a large number of investors and end-users, thanks to a privileged site, quality urban planning, infrastructure, street furniture and landscaping, good design and execution of a variety of real estate products. A recent marketing city center survey reveals that occupancy rates are 95% for residential and retail space, 65% for offices.

Within this environment, the sustained high demand for our real estate end products came as no surprise. In 2004, our real estate sales were around US\$11 million, and our remaining portfolio of developed properties, with a net book value of US\$159 million (estimated market value US\$245 million), earned us US\$19 million in rental income. Particularly gratifying, however, was the significant increase in land sales to around US\$171 million, representing around 158,000 sq m of floor space, a record high since inception.

Consequently, a net income of over US\$65 million, US\$54 million after tax, was earned by our Company in 2004. The balance sheet at year end shows a cash position of US\$101 million. The outstanding debt was reduced to US\$234 million, from US\$320 million at end 2003, with the debt-equity ratio dropping to less than 14%, substantially lower than in earlier years. The debt has further dropped to US\$187 million by end April 2005. We are using the liquidity from increased sales and rental revenues to accelerate bank loan repayment, as it is part of our key objectives to rapidly reduce the debt and eliminate it within a maximum of three years, in order to increase profitability, distribute dividends and enhance the share price.

Our integrated land-for-share sales scheme, introduced in June 2004, has proven to be an important incentive, as it allows investors - developers to benefit from a 15% rebate on land sale prices; settle up to 40% of the land sale price by ceding Solidere shares valued at a 10% premium; and settle the remaining 60% over three years with interest.

We are also succeeding in our policy to offer land with associated real estate and architectural concepts, thus expediting development to the benefit of all. To that effect, we have commissioned specialized local and foreign architectural firms to prepare concept designs for a number of sites, with a focus on residential clusters in Wadi Abou Jamil, as well as Saifi Village extensions.

Finally, the broadband telecommunications network, soon to be installed to ensure high speed connectivity, end technology and services, is an integral part of our real estate planning strategy to attract businesses and residents.

In the coming two to three years, important projects, involving a mix of land uses and a variety of developers, will be completed in the newly planned sectors of the city center: Serail corridor, hotel district, Souks district, Ghalghoul and Martyrs' Square axis. They include several office buildings, destined to serve as banking and corporate headquarters.

Tower developments facing the waterfront are to deliver 300 luxury apartments and five-star hotels / furnished apartments totaling 1,500 rooms.

The launching of the Beirut Souks, a major retail outlet with a concentration of some of the finest retail available anywhere in the world, all placed handily in a very central location, will constitute yet another attraction to Beirut as a visitors' destination. It will also be one further step towards creating a critical mass in the city center. We expect that the Souks will be operational within the next 24 months, and intend to proceed very soon to firm up sale agreements of the units in the gold souks, but will continue to own and manage the remaining retail space of the Souks, expecting to more than double our rental income from the higher turnovers of its shops as the project fully develops.

On the waterfront, the Beirut Marina is welcoming a large number of boats and has become the focus of international leisure events. Real estate development is soon to start around the marina, before evolving towards the new waterfront district. After delays by the contractor, environmental treatment and reclamation works are back on track.

A dramatic turnaround in the share price took place in the year 2004 and the first months of 2005. From a low of nearly US\$4, A and B shares prices almost doubled on the Beirut Stock Exchange, closing the year at respectively US\$8.25 and US\$8.1, compared to the 2003 closings of US\$4.72 and US\$5. By end April 2005, the prices had risen to US\$9.94 for A and B shares.

On the London Stock Exchange, the GDR closing price was US\$7.5 at year end (US\$4.95 in 2003), and has been trading between US\$9.5 and US\$11.25 since February 2005.

The land-for-share sales scheme had a favorable impact on the shares, further heightened by the listing of the Solidere shares on the Kuwait Stock Exchange, starting March 8, 2005. By end April 2005, the share price on the Kuwait Stock Exchange was US\$9.66 for A and B shares.

The above improvements have lifted share prices near the US\$10 nominal value. We are convinced that the higher price level is sustainable, being closer to the real value. We believe that the share price is still undervalued, and it is our key objective now to ensure that it reaches a level that reflects its true value.

This performance was achieved thanks to a remarkable interest on the part of Lebanese and Arab investors in further developments in the city center. We are quite hopeful that this trend will continue, leading to a critical mass where all those people who have invested here in apartments, office space and other projects, will start living and working here and will thus produce further demand.

Land sale deals negotiated in the latest months have raised our sales backlog to US\$146 million, representing 140,000 sq m of floor space. This sustained market interest, by enhancing the value of property in Beirut city center, should generate further positive impacts on Solidere's results and share performance. It is therefore our belief that our Company will be in an excellent shape.

NASSER CHAMMAA
Chairman and General Manager
May 4, 2005

